CANADA BREAD

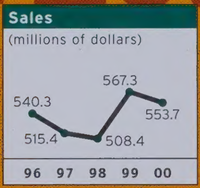
Positioning for Growth

ANNUAL REPORT 2000

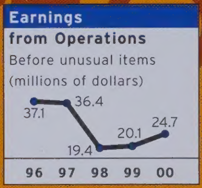
Canada Bread Company, Limited

Improving our

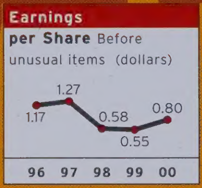
Margins



Sales of frozen and pasta products continue to grow, offset by lower sales of fresh bread products as unprofitable products were discontinued.



Increase of 23% versus 1999, largely attributable to a relentless focus on margin improvement and improving productivity.



Increase of 45% attributable to increase in operating earnings, improvement in Multi-Marques earnings and the impact of tax recoveries in the fourth quarter.

(in thousands of dollars except per share amount)	**2000**	1999	1998	1997	1996
Consolidated Results					
Sales	**$ 553,660**	$ 567,251	$ 508,445	$ 515,364	$ 540,251
Earnings from operations, before unusual items(i)	**24,652**	20,111	19,392	36,366	37,131
Net earnings	**17,240**	6,302	2,896	31,117	25,006
Financial Position					
Net assets(ii)	**$ 273,137**	$ 270,979	$ 282,940	$ 291,795	$ 277,276
Shareholders' equity	**235,441**	231,160	229,998	232,408	205,172
Net borrowings	**3,557**	16,314	29,071	36,650	48,950
Per Share					
Net earnings	**$ 0.80**	$ 0.29	$ 0.14	$ 1.46	$ 1.17
Net earnings before unusual items(iii)	**0.80**	0.55	0.58	1.27	1.17
Dividends	**0.24**	0.24	0.24	0.24	0.24
Book value per share	**$ 10.99**	$ 10.79	$ 10.74	$ 10.86	$ 9.62

(i) Before taking account of a special earnings charge of $8.4 million in 1999 and $14.4 million in 1998. **(ii)** Total assets, less cash and non-interest bearing current liabilities. **(iii)** Before taking account of a special earnings charge of $8.4 million ($5.4 million after taxes) in 1999, $14.4 million ($9.4 million after taxes) in 1998 and a profit on sale of business of $6.3 million ($4 million after taxes) in 1997.

Focused Strategies...

Canada Bread Company, Limited is a leading Canadian manufacturer and marketer of value-added flour based products. The Company's products include fresh bread, rolls and bagels; frozen bagels and dough products; par-baked bread products; and specialty pasta and sauces. Canada Bread maintains a national presence with three principal brand names: Dempster's, Olivieri and Tenderflake. Canada Bread Company, Limited is 68% owned by Maple Leaf Foods Inc.

Over the past year we continued to make sustained progress in implementing our five-point plan to strengthen the fundamentals at Canada Bread. Having stabilized our processes in 1999, we seized control of our destiny in 2000 – working to better satisfy our customers, strengthen our franchise with consumers, and improve our margins.

Our financial performance continued to move up the trajectory that we laid out in mid-1999. Net income rose from $11.7 million (before unusual items) in 1999 to $17.2 million in 2000 and earnings per share from $0.55 (before unusual items) to $0.80 representing a gain of 45.5%. EBITDA margin improved from 7.3% to 8.5% of sales. Sales declined from $567.3 million to $553.7 million as we improved our product mix, eliminated unprofitable SKU's, and responded to adjustments in the structure of the trade. The fourth quarter of 2000 represented our sixth consecutive quarter of year over year improvement in earnings.

In 2001 we will continue to broaden and deepen our efforts to build a higher margin bakery business and lead the fresh pasta category. With increased leadership capacity, and momentum in a number of our initiatives, we will make the investments required to sustain our earnings growth in future years while striving to systematically improve short-term performance. Moreover, while refocusing of our businesses necessitated top line contraction in 2000, we believe we have now earned the right to renew growth – through a combination of organic and acquisition-driven initiatives. In each area of our five-point plan we made progress in 2000 and have set priorities for 2001.

1. BUILD LEADERSHIP CAPACITY. In 2000 we recruited another 46 highly talented people to our senior and middle-level leadership team from leading organizations – bringing the total to 75 since January 1999. We made a big leap forward on developing our team by implementing a rigorous evaluation and reward system to focus our leaders on living our leadership values. With now stronger executive and senior leadership teams in place, our goal in 2001 is to upgrade another 30 mid-level management positions, provide challenging opportunities for our current leaders, and hone the execution of our new personnel processes.

2. CREATE A HIGH PERFORMANCE CULTURE. We evolved the business team structure in 2000 to substantially strengthen the general management role. Combined with adding rigour to our forecasting and budgeting processes, this change further intensified our performance ethic. We have now evolved to where we have a very good balance between leveraging our scale

through functional excellence and ensuring local accountability in each of our businesses. In 2001 we will build on these developments by more sharply cascading our goals through our middle and front-line management, and improving our external orientation with more externally focused measures.

3. PROVIDE TOTAL CATEGORY LEADERSHIP. In 2000 we began the process of driving innovation in the bread category through consumer insight – with the launch of Dempster's Original White Bread with Fibre, and the development of our new WholeGrains line of bread. These products provide superior nutrition, freshness and eating experience, and reinforce the equity in the Dempster's brand. We sustained growth in our frozen par-baked bread and Olivieri pasta businesses. Our product line was streamlined by eliminating several hundred underperforming SKU's. Major upgrades were undertaken to begin the process of transforming our Direct Store Distribution system into a selling machine. Our key account selling approach was adapted to provide category management to our customers. Better pricing disciplines and improved mix increased profitability for our customers and Canada Bread. Our efforts to lead the development of the bread category are taking hold and beginning to show results. Investments against this priority will be increased in 2001 to broaden our initiatives to a level required to sustainably build our business.

4. IMPROVE CUSTOMER SATISFACTION AND REDUCE WASTE. Further gains in service levels were achieved in both our fresh and frozen bread businesses in 2000. The efforts to reduce variability in our Order Generation and Fulfilment process yielded a further 30% reduction of waste. Our factory floor continuous improvement initiative got off to a strong start – reducing total factory waste by 25%. In 2001 we will be taking the next step by beginning the multi-year process of becoming a Six Sigma company. We expect this statistically based improvement approach to further reduce variability in our processes – simultaneously improving customer satisfaction and reducing waste. We have also begun the process of redesigning our Quality Control approach to increase quality standards and shift more accountability to the operations organization.

5. RESTRUCTURE THE INDUSTRY. On January 22, 2001 we announced that we had signed an agreement to acquire the remaining 75% of Multi-Marques, our partner in Quebec since 1971. Subject to regulatory review, we are working to close this transaction. This is a natural evolution of a long-standing relationship. By combining Multi-Marques with Canada Bread, we will have the leading market position in Quebec and a national network to serve our customers from coast to coast. Multi-Marques' $300 million revenue base will provide greater than 50% top-line growth for Canada Bread and the opportunity to improve returns across a larger asset base. Our goal in 2001 is to close this transaction and start the process of capturing the benefits of bringing together our two organizations. We will also begin the process of developing the next round of acquisition opportunities.

Our outstanding employees and our highly valued franchised dealers have worked tirelessly over the past year to make these step-by-step improvements to the business. We are grateful for their efforts and are encouraged by the progress that they have made against each of the initiatives that we have undertaken. 2001 will be another important year for your company as we broaden our efforts – ensuring a balance both between internally and externally focused initiatives and those that will produce results this coming year versus investment to provide a foundation for future earnings growth. Furthermore, we believe that our drive to put the fundamentals in place over the last two years is positioning us to pursue exciting opportunities for top-line growth.

Richard A. Lan, *Chairman of the Board*

Roger M. Dickhout, *President and Chief Executive Officer*

	2000 Achievements	2001 Priorities
1.	**BUILD LEADERSHIP CAPACITY**	
	■ Recruited 4 new executive team members ■ 46 new senior and middle management leaders recruited ■ Implemented values-based performance review process	■ Attract 30 new talents in mid-level leadership
2.	**CREATE A HIGH PERFORMANCE CULTURE**	
	■ Evolved business team structure to strengthen general management ■ Inculcated values at leadership academy ■ Tightened budgeting and forecasting	■ Reinforce leadership values ■ Drive measurement systems down organization ■ Strengthen external measures
3.	**PROVIDE TOTAL CATEGORY LEADERSHIP**	
	■ Launched Dempster's White Bread with Fibre and Original Buns ■ Developed Dempster's WholeGrains line ■ Sustained growth momentum in Hot and Crusty and Olivieri ■ Increased Food Service coverage ■ Strengthened selling focus in DSD system ■ Upgraded key account sales force and implemented selling disciplines ■ Developed category plans for 3 key grocery customers ■ Improved pricing management disciplines	■ Launch Dempster's WholeGrains ■ Simplify and strengthen Dempster's line ■ Define potential of Olivieri brand ■ Sustain and broaden efforts to improve field sales, key account selling, category management and pricing disciplines
4.	**IMPROVE CUSTOMER SATISFACTION AND REDUCE WASTE**	
	■ Increased service levels in DSD and warehouse distribution systems ■ Reduced waste in manufacturing by 25% ■ Reduced supply chain waste by 30% ■ Reduced salaried staff by 4%	■ Reduce waste in manufacturing by further 25% ■ Reduce supply chain waste by further 25% ■ Launch Six Sigma process – as next round of continuous improvement ■ Initiate redesign of quality control to increase accountability to production for quality
5.	**RESTRUCTURE THE INDUSTRY**	
	■ Reached deal to acquire remaining 75% of Multi-Marques to provide strong local presence in Quebec, and coast to coast network	■ Receive regulatory approval and close Multi-Marques transaction ■ Begin process of successful integration ■ Develop next round of acquisition opportunities

Investing in

Introducing
Our Lines:

Originals

Dempster's Original
White Bread with Fibre
Dempster's Original 100%
Whole Wheat Bread
Dempster's Original
White Sandwich Bread
Dempster's Original Whole
Wheat Sandwich Bread
Dempster's Original
Scone Bread
Dempster's Original
Hot Dog Buns ~ Plain
Dempster's Original
Hamburger Buns ~ Plain
Dempster's Original
Hamburger Buns ~ Sesame

Whole Grains

Dempster's WholeGrains ~
12 Grain
Dempster's WholeGrains ~
Multigrain
Dempster's WholeGrains ~
Stoneground Wheat
Dempster's WholeGrains ~
Wheat & Oats with Honey
Dempster's WholeGrains ~
Sunflower Multigrain

Introducing...

ORIGINALS

Our everyday breads and buns with the added nutrition people expect from Dempster's.

WHOLE GRAINS

The grain breads made with whole grain flour – all the parts of the grain for the total nutritional content that grains offer. A delicious array of flavors includes 12 Grain, Wheat Oats and Honey, and Sunflower Multigrain.

For kids who refuse to eat brown bread... Now there's Dempster's Original White Bread with Fibre, the first leading



brand to provide a daily source of fibre. ➤ Would you believe you can serve a fresh, great-tasting meal in under

10 minutes? Olivieri fresh pasta and sauces, a fresh idea for an everyday 10 minute meal... Most distinctly Olivieri.

➤ Tenderflake's flaky pie crust, flaky every time.

Building...

BRAND AWARENESS ➤

Advertising is a way of building brand awareness to our customers. It has been successful in building our market share.

our Brands

HOT & CRUSTY

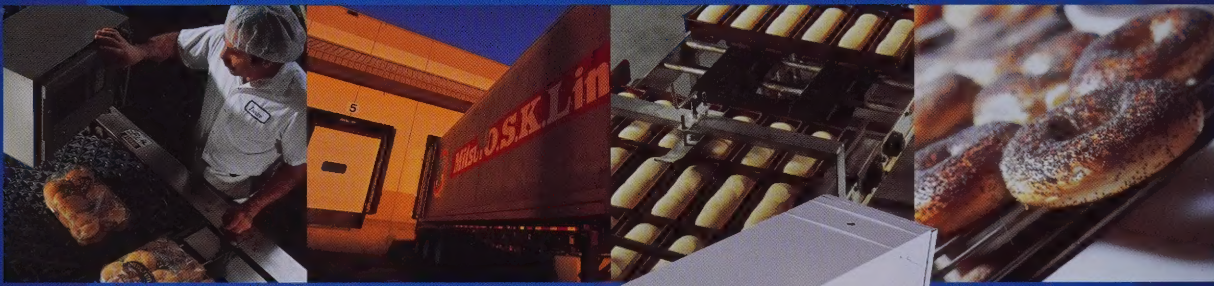
A line of frozen bakery style baguettes and rolls that bake up hot and fresh in the oven and complement any meal.

A+

Nutrition

Nutrition is playing a bigger role in people's day to day lives. Bread has always been a key component of a balanced diet and innovations like Dempster's White Bread with Fibre and Dempster's WholeGrains are making a real difference in how people get nutrition. With an evolving product line Dempster's will grow as a tasty and convenient way to get the nutrition we need.

Continuous Improvement



CORE PROCESSES

Significant progress was made in redesigning the supply chain in our frozen bakeries and benchmarking our fresh direct store distribution systems.

CUSTOMER SERVICE

On time deliveries and order fill rates were improved by 20% in 2000 and we are targeting further improvement for 2001.

WAR ON WASTE

We declared war on waste by eliminating non-value-added expense. Our target for 2001 is a 25% reduction in manufacturing waste and a 25% reduction in supply chain waste.

TECHNOLOGY

Upgraded three bagel manufacturing facilities with state-of-the-art bagel-forming equipment and installed the newest technology for manufacturing high-speed crusty breads and rolls.

Building Value...for Our Shareholders

Financial Results

This financial review and analysis should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report to Shareholders of Canada Bread.

Sales:
Sales for the year of $553.7 compared to $567.3 in 1999. Sales of frozen and pasta products continued to grow as the Company increased distribution and penetration of these products in the Canadian and U.S. marketplace. However, these sales increases were offset by lower sales of fresh bread products as unprofitable products were discontinued and changes in the structure of the retail trade resulted in volume changes in the Western and Eastern regions.

Earnings from Operations: *(before unusual items)*
Earnings from operations before unusual items of $24.7 million represents a 23% increase from $20.1 million last year. This strong earnings increase was achieved despite lower sales and was attributable to a relentless focus on margin improvement through cost reduction initiatives in manufacturing and the supply chain, elimination of unprofitable products and improvements in sales mix to more profitable branded products. Food Service and pasta sales continued to be a strong driver of sales and margins. In addition to direct cost improvements, the focus on improvements in the supply chain has also resulted in sharply improved customer service.

In 1999, the Company recorded an earnings charge of $8.4 million ($5.4 million after taxes), representing the cost of restructuring and streamlining operations. These initiatives are substantially complete and contributed to the strong operating earnings performance for 2000.

Other Income:
Other income increased from $1.5 million to $1.9 million. This increase was entirely due to improvements in Multi-Marques earnings, particularly in the fourth quarter of the year.

Taxation:
The Company's effective tax rate was 28.8% in 2000 (1999 – 43.0%). *The Company's tax rate is discussed in note 12 of the consolidated financial statements.*

Corporate Matters

Liquidity and Capital Resources:
Canada Bread finances its operations primarily out of cash flow from operations. In addition, to provide it with further liquidity, the Company and its subsidiaries have several lines of credit with major Canadian banks. The Company has two revolving operating facilities totalling $40 million. Of this amount, $20 million is a short term revolving credit line that is repayable in December 2001; and $20 million is a revolving term loan that is available through September 2003 and is extended annually at the lender's option. The Company had not drawn on these facilities at the end of December 2000 (1999 – $14.5 million).

The Company has demand overdraft facilities, of which $32.6 million was undrawn at the end of the year. In addition, the Company had a fully utilized accounts receivable securitization program at the end of the year of $20 million (1999 – $20 million).

Management is of the opinion that current sources of funding provide the Company with sufficient resources to finance ongoing business requirements and its planned capital expenditure program. Subsequent to the end of the year, the Company announced that it has agreed to purchase the remaining 75% interest in Multi-Marques,

...by looking towards the future

to bring its ownership to 100%. This transaction, which is subject to regulatory approval, will be financed with new long term debt.

Dividends:
Dividends paid in 2000 equaled $0.24 per share (1999 – $0.24), resulting in a cash outflow of $5.1 million (1999 – $5.1 million).

Risk Management:
The Company has financial risk to varying degrees relating to interest rates, foreign exchange and commodity pricing. The cost of flour, which represents a large component of the Company's raw material costs, is directly impacted by wheat prices and quality, which are often volatile. The Company manages its exposure to fluctuating flour prices, when appropriate, through the use of forward purchase contracts.

Canada Bread also manages its exposure to interest rates by the use of interest rate derivative financial instruments, while foreign exchange currency contracts are used where appropriate to fix exchange rates on export sales and expenditures denominated in foreign currencies. *Information on the Company's use of derivative products and its year-end position is set out in note 7 to the consolidated financial statements.*

Environment:
Canada Bread is conscious of its responsibility to the environment and operates within an overall environmental policy that has been formally approved by the Board of Directors. The Board of Directors monitors compliance on a regular basis. The Company's emphasis on the environment extends to the operations of its plants and the impact of these operations on air and water quality, the handling of toxic and dangerous chemicals and the use of packaging. The Company strives to exceed required environmental compliance and to provide a safe workplace for its employees. Resources, training and capital are directed to these areas to ensure that the Company continues to meet its responsibilities. The Company is in material compliance with existing environmental legislation. Expenditures relating to current environmental requirements are not expected to have a material effect on the financial position or earnings of the Company.

Related Party Transactions:
Maple Leaf Foods Inc. and its subsidiary, Maple Leaf Foods USA Inc., provide certain management and other services to Canada Bread. The Company's Audit Committee reviews these arrangements on a regular basis. *See note 14 to the consolidated financial statements for further details.*

Change in Accounting Policies:
The Company implemented the new CICA standard for employee future benefits and its pension plans and other post retirement benefits prospectively effective January 1, 2000. Application of the recommendation did not have a material effect on net earnings or earnings per share.

The Company implemented the new CICA standard for income taxes retroactively effective January 1, 2000, without restatement of prior period financial statements as permitted under the new standards. Application of the recommendation would not have materially affected net earnings or earnings per share as previously reported in 1999. In total, adoption of the standard resulted in a cumulative reduction to retained earnings at January 1, 2000, of $7.8 million.

Management recognizes its responsibility for conducting the Company's affairs in the best interests of all of its shareholders. The consolidated financial statements and related information in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles which involve the use of judgement and estimates in applying the accounting principles selected. Other financial information in the annual report is consistent with that in the consolidated financial statements.

The Company maintains systems of internal controls which are designed to provide reasonable assurance that accounting records are reliable and to safeguard the Company's assets. The Company's independent auditors, KPMG LLP, Chartered Accountants, have audited and reported on the Company's consolidated financial statements. Their opinion is based upon audits conducted by them in accordance with generally accepted auditing standards to obtain reasonable assurance that the consolidated financial statements are free of material misstatement.

The Audit Committee of the Board of Directors, all of whom are independent of the Company or any of its affiliates, meets periodically, with the independent external auditors, the internal auditors and management representatives to review the internal accounting controls, the consolidated quarterly and annual financial statements and other financial reporting matters. Both the internal and independent external auditors have unrestricted access to the Audit Committee. The Audit Committee reports its findings and makes recommendations to the Board of Directors.

Roger Dickhout

R.M. Dickhout

President and
Chief Executive Officer

M.H. Vels

Chief Financial Officer

We have audited the consolidated balance sheets of Canada Bread Company, Limited as at December 31, 2000, and December 31, 1999, and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000, and December 31, 1999, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada,
February 5, 2001.

CONSOLIDATED BALANCE SHEET

(in thousands of Canadian dollars) As at	December 31, **2000**	December 31, 1999
Assets		
Current Assets:		
Accounts receivable (note 4)	**$ 25,094**	$ 25,324
Due from related company (note 14)	**5,281**	4,290
Inventories	**16,065**	17,898
Income and other taxes receivable	**1,673**	—
Future tax asset (note 12)	**2,655**	—
Prepaid expenses	**1,740**	1,945
	52,508	49,457
Investment in associated company	**46,971**	46,128
Property and equipment (note 5)	**156,676**	166,290
Goodwill	**74,225**	77,490
	$ 330,380	$ 339,365
Liabilities and Shareholders' Equity		
Current Liabilities:		
Bank indebtedness	**$ 3,280**	$ 1,436
Accounts payable and accrued charges	**55,958**	64,394
Dividends payable	**1,285**	1,285
Income and other taxes payable	**—**	2,707
Current portion of long term debt (note 6)	**102**	106
	60,625	69,928
Long term debt (note 6)	**175**	14,772
Future tax liability (note 12)	**34,139**	—
Deferred income taxes	**—**	23,505
Shareholders' equity (note 8)	**235,441**	231,160
	$ 330,380	$ 339,365

See accompanying notes to consolidated financial statements.
Contingencies and commitments (note 15).
Subsequent event (note 16).

On behalf of the Board:

Roger Dickhout
Director

John Bragg
Director

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands of Canadian dollars, except per share amounts) Years ended	December 31, 2000	December 31, 1999
Sales	**$ 553,660**	$ 567,251
Earnings from operations, before unusual items	**24,652**	20,111
Unusual items (note 3)	**—**	(8,350)
Earnings from operations	**24,652**	11,761
Other income (note 10)	**1,876**	1,469
Earnings before interest and taxes	**26,528**	13,230
Interest expense (note 11)	**2,323**	2,174
Earnings before income taxes	**24,205**	11,056
Income taxes (note 2g and 12)	**6,965**	4,754
Net earnings	**$ 17,240**	$ 6,302
Earnings per share (note 8)	**$ 0.80**	$ 0.29

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(in thousands of Canadian dollars) Years ended	December 31, 2000	December 31, 1999
Retained earnings, beginning of year (note 8)	**$ 194,195**	$ 193,033
Adjustment to reflect change in accounting for income taxes (note 2g)	**(7,819)**	—
Net earnings	**17,240**	6,302
Dividends declared ($0.24 per share; 1999 – $0.24 per share)	**(5,140)**	(5,140)
Retained earnings, end of year	**$ 198,476**	$ 194,195

See accompanying notes to consolidated financial statements.

(in thousands of Canadian dollars) Years ended	December 31, 2000	December 31, 1999
Cash Provided By (used in):		
Operating Activities		
Net earnings	$ 17,240	$ 6,302
Add (deduct) items not affecting cash:		
Depreciation	17,385	17,026
Amortization	3,265	3,075
Future income taxes	(310)	—
Deferred income taxes	—	2,663
Undistributed earnings of an associated company	(843)	(360)
Non-cash amounts included in unusual items	—	5,428
Changes in non-cash working capital	(11,069)	5,122
	25,668	39,256
Financing Activities		
Dividends paid	(5,140)	(5,140)
Decrease in long term debt, net	(14,601)	(12,072)
	(19,741)	(17,212)
Investing Activities		
Additions to property and equipment	(7,771)	(21,359)
	(7,771)	(21,359)
Increase (decrease) in cash and cash equivalents	(1,844)	685
Bank indebtedness, beginning of year	(1,436)	(2,121)
Bank indebtedness, end of year	$ (3,280)	$ (1,436)
Supplemental cash flow information:		
Net interest paid	2,234	2,178
Net taxes paid (recovered)	11,109	(943)

See accompanying notes to consolidated financial statements.

December 31, 2000, and December 31, 1999 (tabular amounts in thousands of dollars)

1. THE COMPANY

Canada Bread Company, Limited ("Canada Bread" or the "Company") and all of its subsidiaries operate in the bakery industry. Its principal business comprises the manufacture and sale of a variety of bakery and pasta products including fresh bread and rolls, bagels and par-baked bread. Canada Bread is 68% owned by Maple Leaf Foods Inc. ("Maple Leaf").

2. SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies of the Company. The preparation of periodic financial statements necessarily involves the use of estimates and approximations. Should the underlying assumptions change, the actual amounts could differ from those estimated.

a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. The Company owns a 25% interest in Multi-Marques Inc., a Quebec based bakery business, which is accounted for using the equity method.

b) Translations of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at year-end exchange rates. Exchange gains and losses are recognized in current earnings.

c) Financial instruments

The Company enters into hedging arrangements to manage its exposure to currency, commodity price and interest rate fluctuations. The gains and losses on these hedging instruments are recognized in the consolidated financial statements in the same period and are matched with the same financial statement category as the item to which the hedged position relates. Any accrued amounts receivable and payable under the terms of such contracts are included in accounts receivable and accounts payable, respectively.

d) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined substantially on a first-in, first-out basis.

e) Property and equipment

Property and equipment are recorded at cost including, where applicable, interest capitalized during the construction or development period. Depreciation is calculated using the straight-line basis at the following rates which are based on the expected useful life of the asset:

Buildings	2½% – 5%
Machinery and equipment	7½% – 33⅓%

f) Goodwill

The excess of the purchase price over the estimated fair value of identifiable net assets acquired represents goodwill. Goodwill is amortized over periods ranging from ten to forty years on a straight-line basis. The Company annually reviews the carrying value of goodwill to determine if an impairment has occurred.

The Company measures the potential impairment of goodwill by comparing the undiscounted value of the expected future operating income before income taxes, interest and amortization of goodwill to the carrying value of goodwill. Any permanent impairment in the value of goodwill is written off against earnings.

g) Income taxes

The Company has adopted The Canadian Institute of Chartered Accountants new income tax accounting standards retroactively, effective January 1, 2000, without restatement of the financial statements of any prior periods as permitted under the standard. The standard requires a change from the deferred method of accounting for income taxes to the asset and liability method of accounting for income taxes.

Under the new standard, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In addition, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantial enactment or the enactment date.

Pursuant to the deferral method, which was applied for the year ended December 31, 1999, and prior years, deferred income taxes are recognized for income and expense items that are reported in different years for financial reporting purposes and income tax purposes using the tax rate applicable for the year of the tax calculation. Under the deferral method, deferred taxes are not adjusted for subsequent changes in tax rates.

The cumulative effect of this change in accounting for income taxes of $7.8 million is determined as of January 1, 2000, and is reported separately in the consolidated statement of retained earnings as a restatement of the opening balance of retained earnings for the year ended December 31, 2000.

h) Employee benefit plans

The Company has adopted The Canadian Institute of Chartered Accountants new employee benefit plan standard prospectively, from January 1, 2000. Under new recommendations, the cost of the Company's defined benefit pension plans, post-retirement health, life insurance and other post-employment benefits is accrued as earned, based on actuarial valuations. The Company's pension fund assets are valued at market values and the excess net actuarial gain or loss over 10% of the greater of the benefit obligation and the market value of plan assets is amortized over the average remaining service period of active employees. Employee future benefits are measured using market interest rates on high quality debt instruments.

The application of this accounting standard for the year ended December 31, 2000, does not materially affect net earnings or earnings per share as at December 31, 2000.

The Company has a defined contribution plan for some of its hourly employees. Current service pension costs are expensed as funded.

i) Stock-based compensation

The Company has stock option plans for employees. No compensation expense is recognized on the issue of options under stock options plans. Consideration paid by employees on the exercise of stock options is recorded as share capital. The stock option plans are described in note 9.

j) Statement of cash flows

Cash and cash equivalents are defined as cash and short term securities with maturities less than ninety days at the date of acquisition, less bank indebtedness.

k) Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

3. UNUSUAL ITEMS

The Company recorded a charge in 1999 of $8.4 million ($5.4 million, net of tax), relating to further centralization and streamlining of administrative and operating processes.

At December 31, 2000, approximately $1.7 million (1999 – $6.7 million) relating primarily to severance is included in accounts payable and accrued charges.

4. ACCOUNTS RECEIVABLE

Under a revolving securitization program, the Company has sold, with limited recourse, certain of its trade accounts receivable to a financial institution. At December 31, 2000, trade accounts receivable amounting to $20 million (1999 – $20 million) had been sold under this program.

5. PROPERTY AND EQUIPMENT

	2000	1999
Land	$ 13,219	$ 13,198
Building	52,039	50,272
Machinery and equipment	210,331	197,384
Construction in progress	4,388	13,511
	279,977	274,365
Less accumulated depreciation	123,301	108,075
Net book value	$ 156,676	$ 166,290

6. LONG TERM DEBT

	2000	1999
Revolving term facility	$ —	$ 14,500
Obligations under capital leases and other long term debt	277	378
	277	14,878
Less current portion	102	106
	$ 175	$ 14,772

The Company has two revolving committed facilities with Canadian chartered banks for $20 million each. Of these facilities, $20 million is available through September 2003 and is extended annually at the lender's option. The second $20 million facility will mature in December 2001. These facilities bear interest based on Bankers' Acceptance rates for Canadian dollar loans and LIBOR for U.S. dollar loans. As at December 31, 2000, no amount (1999 – $14.5 million) had been drawn under these facilities.

In addition, the Company has undrawn demand overdraft facilities of $32.6 million (1999 – $35.6 million) which bear interest at short term rates.

7. DERIVATIVE FINANCIAL STATEMENTS AND RISK MANAGEMENT

In the ordinary course of business, the Company enters into derivative financial instruments to reduce underlying cash flow risks associated with foreign currency and interest rates.

Foreign currency risk management

The Company uses foreign currency forward contracts to manage its currency exposure. The currency exposures relate primarily to U.S. dollar denominated export sales.

At December 31, 2000, the Company had outstanding commitments to sell forward US$4.2 million (1999 – US$7.2 million) to Maple Leaf. The Company has designated these contracts as a hedge of export sales in future fiscal periods as follows:

2001	US$3.0 million
2002	US$1.2 million

Based on the exchange rate at December 31, 2000, the Company would have incurred a loss of $0.3 million (1999 – $0.2 million) to settle all its commitments under its outstanding foreign exchange forward contracts.

Interest rate risk management

The Company uses interest rate swaps to manage its exposure to interest rate fluctuations. At December 31, 2000, the Company had one swap contract, with a notional amount of $24 million and a maturity date of June 10, 2008, in place with Maple Leaf. The fixed rate payable by the Company under this contract is 5.64%.

Based on market values at December 31, 2000, the Company would have realized a gain of $0.1 million (1999 – $1.6 million) to terminate the above noted swap agreements. Market values were determined based on information received from the Company's counterparty to these contracts.

The Company's blended average effective cost of borrowing for 2000 was 5.9% (1999 – 5.5%) after adjusting for the payments made under swap contracts in place in 2000.

8. SHAREHOLDERS' EQUITY

Shareholders' equity consists of the following:

	2000	1999
Share capital (21,416,812 common shares)	**$ 36,965**	$ 36,965
Retained earnings	**198,476**	194,195
	$ 235,441	$ 231,160

The authorized share capital of the Company consists of an unlimited number of common shares.

9. SHARE OPTIONS

The Board of Directors have approved the issue of stock options to certain members of the Company's management. Up to 940,000 shares may be issued under this plan. Options to purchase 333,500 shares remain available to be granted in the future.

Certain employees and officers of the Company participate in the Maple Leaf stock option plan. No costs are charged to the Company for participation in this plan.

10. OTHER INCOME

	2000	1999
Earnings from an associated company	**$ 1,906**	$ 1,423
Gain (loss) on sale of property and equipment	**(30)**	46
	$ 1,876	$ 1,469

11. INTEREST EXPENSE

	2000	1999
Interest expense on long term debt	**$ 1,343**	$ 1,344
Net interest expense on short term debt and accounts receivable securitization (note 4)	**980**	830
	$ 2,323	$ 2,174

12. INCOME TAXES

Income tax expense varies from the amount that would be computed by applying the combined federal and provincial statutory tax rate as a result of the following:

	2000	1999
Income tax expense according to combined statutory rate of 44.5% (1999 – 44.9%)	**$ 10,761**	$ 4,960
Increase (reduction) in income taxes resulting from:		
Adjustment to future tax assets and liabilities for enacted changes in tax laws and reduction in the capital gains inclusion rate	**(2,804)**	—
Manufacturing and processing credit	**(1,943)**	(857)
Non-taxable gains	**(87)**	(295)
Non-deductible goodwill amortization	**1,129**	1,139
Equity in earnings of associated company	**(748)**	(566)
Large Corporations Tax	**147**	205
Other	**510**	168
Total income taxes	**$ 6,965**	$ 4,754

Income tax expense attributable to net income consists of:

	Current	Future	Total
Year ended December 31,			
2000	$ 7,275	$ (310)	$ 6,965
1999	$ 3,361	$ 1,393	$ 4,754

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2000, are presented below:

Future tax assets:	
Accrued assets	$ 2,310
Other	779
Total future tax assets	$ 3,089
Future tax liabilities:	
Plant and equipment – differences in net book value and undepreciated capital cost	$ 24,275
Investments in affiliated company – undistributed income of affiliated company	7,966
Other	2,332
Total future tax liabilities	$ 34,573

13. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

Information about the Company's defined benefit plans as at December 31, 2000, in aggregate, is as follows:

	Pension benefit plans
Accrued benefit obligation:	
Balance, beginning of year	$ 64,711
Current service cost	1,508
Interest cost	4,829
Benefits paid	(5,263)
Actuarial losses	3,734
Employees' contribution	961
Balance, end of year	$ 70,480
Plan assets:	
Fair value, beginning of year	$ 79,022
Actual return on plan assets	7,916
Employer contributions	415
Employees' contributions	961
Benefits paid	(5,263)
Fair value, end of year	$ 83,051
Funded status – plan surplus	12,570
Unamortized transitional amount	(11,338)
Unamortized net actuarial gain	2,008
Accrued benefit asset	$ 3,240

The significant actuarial weighted average assumptions adopted in measuring the Company's accrued benefit obligations are as follows as of December 31, 2000:

	Pension benefit plans
Discount rate	7.5%
Expected long term rate of return on plan assets	8.0%
Rate of compensation increase	4.5%

The Company's net benefit plan expense (income) for the year ended December 31, 2000, is as follows:

	Pension benefit plans
Current service cost	$ 1,508
Interest cost	4,829
Expected return on plan assets	(6,190)
Amortization of transitional obligation	(777)
Net benefit plan expense (income)	$ (630)

The expense during the year for the defined contribution plan was $1.4 million (1999 – $1.5 million).

14. RELATED PARTY TRANSACTIONS

a) A significant portion of the Company's sales to the U.S. and other export markets are through related companies during the normal course of operations and have been recorded at market amounts.

b) Maple Leaf provides the Company with certain management services including treasury, taxation, internal audit, accounting and access to bulk purchasing programs. Pursuant to a Management and Affiliation Agreement entered into in August 1995, the Company paid a management and affiliation fee of $3.4 million (1999 – $3.2 million) to Maple Leaf which approximates the cost of providing these services.

c) The Company entered into a Management Services Agreement with Maple Leaf Foods USA Inc. (Maple Leaf USA), whereby Maple Leaf USA administered and supervised the management of the Company's U.S. operations commencing January 1996. The cost of providing this service was included in the management and affiliation fee. Both agreements were approved by the independent members of the Board of Directors. Under this agreement, sales of product in the U.S. that is manufactured in the Canadian facilities are managed by Maple Leaf USA. The sales value and profitability related to these sales are recorded in the Company's financial statements.

d) The Company receives certain information system services from Maple Leaf and is charged for direct costs incurred.

15. CONTINGENCIES AND COMMITMENTS

a) The Company has been named as defendant in several legal actions and is subject to various risks and contingencies arising in the normal course of business. Management is of the opinion that the outcome of these uncertainties will not have a material adverse effect on the Company's financial position.

b) In the normal course of business, the Company enters into sales commitments with various customers, and purchase commitments with various suppliers. These commitments are for varying terms, and can provide for fixed or variable prices. The Company believes these contracts serve to reduce risk, and it is not anticipated that losses will be incurred on these contracts.

c) The Company has operating lease commitments in respect of property and equipment used in operations which require minimum annual payments as follows:

2001	$ 11,303
2002	8,922
2003	6,402
2004	3,720
2005	1,899
Thereafter	963
	$ 33,209

16. SUBSEQUENT EVENT

On January 22, 2001, the Company reached an agreement to increase its ownership in Multi-Marques Inc. from 25% to 100% by acquiring the remaining outstanding shares from all of the other shareholders. The purchase will represent a net investment of approximately $125 million and will be financed with new long term bank debt. Finalization of the transaction is dependant on clearance of the transaction under the Competition Act.

CORPORATE DIRECTORY

Directors

R.A. Lan

Chairman of the Board

J.L. Bragg

R.M. Dickhout

S.A. Everett

C.J. Mayer

G.W.F. McCain

J.S. McCain

M.H. McCain

T.P. Muir

J.F. Petch

Senior Management

R.M. Dickhout

President and Chief Executive Officer

D.A. Bradd

Executive Vice-President, Operations

R.I. Busch

Senior Vice-President, Human Resources and Corporate Affairs

K.S. Cross

Vice-President, Fresh Retail Marketing

A. Farrell

Vice-President, and General Manager Olivieri

D.E. Grover

Vice-President, Food Service

D.J. MacFarlane

Senior Vice-President, and General Manager Frozen Bakeries

J.L. Madder

Director Corporate Development

C.B. McLean

Senior Vice-President, and General Manager Fresh Bakeries West

M.S. Skivington

Vice-President, Information Systems

C.T. Sparkes

Senior Vice-President, and General Manager Fresh Bakeries, Central Canada

M.H. Vels

Chief Financial Officer

S. Weinberger

Senior Vice-President, Finance

SHAREHOLDER INFORMATION

Auditors

KPMG LLP

Registrar and Transfer Agent

Computershare Trust Company of Canada

Head Office

10 Four Seasons Place
Etobicoke, Ontario M9B 6H7
(416) 622-2040

Annual Information Form

Copies of the Company's Annual Information Form, filed with regulatory authorities, are available from the Corporate Secretary, upon request.

Annual Meeting

The Annual Meeting of the Shareholders of Canada Bread Company, Limited will be held at the Metro Toronto Convention Centre, North Building, 255 Front Street West, Toronto, Ontario, Room 206D & F on Tuesday, May 1, 2001, at 10:00 o'clock in the forenoon.

This report is printed in Canada using vegetable inks on chlorine free environmentally friendly paper.

Canada Bread Company, Limited

is a leading Canadian manufacturer and marketer of value-added flour based products.

The Company's products include fresh bread, rolls and bagels;

frozen bagels and dough products; par-baked bread products;

and specialty pasta and sauces.

Canada Bread Company, Limited is 68% owned by Maple Leaf Foods Inc.